

Chapter 9. Prepayments and Advances

9-1. Purpose. This policy establishes the Department of Housing and Urban Development’s (HUD or Department), Office of Chief Financial Officer (OCFO) current accounting treatment of estimates for Prepayments and Advances by following the regulatory requirements of the Office of Management and Budget (OMB) and Federal Accounting Standards Advisory Board (FASAB). This policy is intended to provide guidance and effective financial control over HUD’s assets and liabilities. Additionally, this guidance is intended to provide reasonable assurance that the Department’s internal control objectives are being achieved in the following areas:

- reasonable estimates that affect HUD’s reported assets;
- reliability on financial reporting, including financial statements and notes; and
- compliance with applicable laws, regulations, and policies.

9-2. Relevant Authoritative Guidance

Authoritative Guidance	Effective Date
OMB Circular A-136, Financial Reporting Requirements	08/10/2021 (updated annually)
Statement of Federal Financial Accounting Standards (SFFAS) Number 1, Accounting for Selected Assets and Liabilities	09/30/1994

9-3. Background. According to *SFFAS 1 Accounting for Selected Assets and Liabilities*, paragraph 57, “Advances are cash outlays made by a federal entity to its employees, contractors, grantees, or others to cover a part or all of the recipients’ anticipated expenses or as advance payments for the cost of goods and services the entity acquires.” For financial reporting purposes, HUD OCFO Accounting records estimates on prepayments/advances for two Public Indian Housing (PIH) programs: Housing Choice Voucher Program (HCVP) and Office of Native American Programs (ONAP) on a quarterly and annual basis, respectively. These estimates are recorded to properly reclassify those monies that have not yet been earned by the Public Housing Authority (PHAs) or grantees but have been disbursed by HUD. These are considered top-side entries which are posted into HUD’s Oracle system no later than the 5th business day of the month following the end of the quarter.

OCFO and PIH HCVP personnel worked to develop an estimation methodology to determine its quarterly prepayment balances for the HCV programs due to timing constraints on obtaining the actual data. OCFO and PIH-ONAP personnel worked to develop an estimation methodology to determine its annual advance balances on the portion that is invested by eligible grantee recipients due to timing constraints in obtaining the actual data. Both PIH programs in collaboration with OCFO have established sound methodologies in conformity with Generally Accepted Accounting

Principles (GAAP) requirements to determine the most reasonable estimates and assumptions that affect HUD's reported assets and liabilities. For additional information on the PIH program's methodologies refer to "Final PIH HCV Prepayment Methodology SOP FY2021" and "Indian Housing Block Grant Advance SOP FY 2020."

- 9-4. Scope.** This policy applies to HUD's process for recording prepayment/advance estimates. It is the responsibility of HUD OCFO to review the information received from the program offices for the estimates, review the estimate computed by ARC, and approve the recording of the prepayment/advance estimates into the Oracle Federal Financials.
- 9-5. Effective Date of This Policy.** September 2021. This policy will be reviewed at least annually and updated as needed.
- 9-6. Roles & Responsibilities.** HUD is the principal Federal agency responsible for programs concerned with the Nation's housing needs, fair housing opportunities, and improvement and development of the Nation's communities. According to the OMB Circular A-136, HUD is required to submit audited financial statements, interim financial statements, and an Agency Financial Report (AFR) under the Chief Financial Officers Act of 1990, as amended (CFO Act), the Government Management Reform Act of 1994 (GMRA), and the Accountability of Tax Dollars Act of 2002 (ATDA).
- A. PIH HCVP Financial Management Division (FMD).** This office provides program financial oversight on the Housing Choice Vouchers program which assists very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market. FMD's primary responsibilities for prepayment/advance estimates involve providing one specified month of voucher management system data, any expense methodologies that may be needed for reducing prepayments/advances information regarding assumptions/constraints, the Moving to Work and Non-Moving to Work Restricted Net Position (RNP) reports, the estimate to actual reconciliation, and any program related Note disclosure information required for the AFR on a quarterly basis to the Department of Treasury, Bureau of the Fiscal Service, Administrative Resource Center (ARC) and OCFO Accounting-Financial Reporting Division (FRD).
- B. PIH ONAP Office of Grants Evaluation.** This office provides program oversight on the IHBG program which provides a range of affordable housing activities on Indian reservations and Indian areas. This office's responsibilities includes working with the program recipients, receiving the Federal Financial Report (Standard Form (SF) 425) from all recipients each quarter, entering drawdowns, investments, and expenditures into the Performance Tracking Database (PTD) which is ONAP's system of record. ONAP's primary responsibilities for prepayment/advance estimates involve performing quality assurance reviews of the data entered into PTD, and provide queries based on the PTD to ARC and OCFO Accounting-FRD twice a year to perform the annual estimation and validation of the prior year estimation.

- C. ARC.** ARC is a shared service solution that provides administrative and financial management support. ARC's primary responsibilities for prepayment/advance estimates involve the receipt of data from the PIH programs, validating the data received from the PIH program offices, calculating the advances/prepayments, preparing and submitting the journal entries for review and approval to OCFO Accounting-FRD, reversing the previous estimates recorded in system, and posting the approved journal entries into HUD's financial system of record, Oracle Federal Financials.
- D. OCFO Accounting-FRD.** This office is a division within the OCFO Accounting organization. OCFO Accounting-FRD provides accounting oversight over HUD's FS and Notes, which is produced by ARC, in accordance with all applicable regulatory laws. OCFO Accounting-FRD's primary responsibilities for prepayment/advance estimates involve analyzing the methodology for soundness and GAAP compliance, reviewing and validating all applicable data received from the program offices, reviewing and approving the estimates and journal entries prepared by ARC, ensuring that the estimation is reasonable to the actual based on the validations, and ensuring that the FS and Notes have been accurately reflected numerically and through narrative disclosures.
- 9-7. Internal Controls.** HUD's OCFO Accounting-FRD performs various internal control checks to validate the PIH Prepayment and Advance estimates. For detailed internal control information refer to the "Accounting FRD-SOP- Financial Reporting FY 2021" section 4.2.1.10, "Financial Statement Notes."